

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0389-03
Bill No.: Perfected HCS for HB 272
Subject: Education, Higher
Type: Original
Date: April 8, 2015

Bill Summary: This proposal expands the Higher Education Academic Scholarship Program to include forgivable loans.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$6,279,187)	(\$10,572,603)	(\$17,363,164)
Total Estimated Net Effect on General Revenue	(\$6,279,187)	(\$10,572,603)	(\$17,363,164)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Higher Education Academic Scholarship Trust *	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Transfers in and costs net to zero.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

A+ Academic Scholarship

Officials at the **Department of Higher Education (DHE)** assume that the new definition of "continuous enrollment" will reduce the number of scholarship renewals a student's junior and senior year due to the fact that 5 year graduates are not accumulating credit hours at the rate required by this new provision. While some of these students may increase the number of hours completed as a result of this requirement, it is assumed that some proportion (10%) will not. At the current award level (\$3,000), this would reduce the cost for the scholarship component of the program by approximately \$870,000 ($6,000 - 1,600 = 4,400$ renewals * $0.66 = 2,904$ juniors/seniors * $0.1 = 290$ ineligibles * \$3,000).

A+ Forgivable Loans

Officials at the **DHE** assume this would change the current Bright Flight Program administered by DHE. §173.250.2(7)(d) would require that, in order to be eligible, 2017 high school seniors and all future graduating classes would be required to meet additional eligibility requirements. Those additional eligibility requirements would be to achieve a passing score on the Algebra I and English I end-of-course exams or meet ACT/COMPASS test scores established by the DHE. Second, it would establish a new definition of continuous enrollment (173.250.2(4)). Third, §173.250.11-16 would add a forgivable loan component to the program for any Bright Flight eligible student that has an ACT or SAT score in the top five percent of test takers. Loans are eligible to be forgiven on a year by year basis based on the recipient being employed in Missouri. If the recipient does not fulfill the employment requirement, all remaining loans go into repayment, with interest.

For FY 2014, DHE paid a total of 1,600 freshmen through the Bright Flight program, constituting payments to the top three percent of test takers. Current projections indicate participation will remain relatively stable. With regard to students in top fourth and fifth percentile, approximately 1,000 students in the class of 2014 achieved an ACT score in this range. It is assumed 70 percent will enroll in a Missouri institution, which is consistent with the proportion of test takers that are eligible within the top 3 percent. This would mean 700 students in the top fourth and fifth percentiles would be eligible for the forgivable loan their freshman year.

It is assumed that 50% of the eligible students will opt to accept the loan and that the loan will be the maximum permitted for the type of institution attended. That equates to 800 students in the top three percent, and 350 more students in the top 4-5%. The table is broken up below, based on the fact that 76% of students who were eligible for Bright Flight went to a 4-year institution,

ASSUMPTION (continued)

3% of eligible students attended community college, and 21% went to an independent university:

FY 2016	4-yrs	CC	Independent
Eligible (top 5%)	\$874	35	241
Max. Loan	\$5,000	\$2,000	\$5,000
Total	\$4,370,000	\$70,000	\$1,205,000

Based on these assumptions, the cost for the initial year (FY 2016) would be \$5,645,000.

FY 2017	4-yrs	CC	Ind.
Eligible (top 5%)	1,710	67	473
Max. Loan	\$5,000	\$2,000	\$5,000
Total	\$8,550,000	\$134,000	\$2,365,000

Based on these assumptions, the cost for FY 2017 would be \$11,049,000.

It is estimated that the new definition of continuous enrollment will reduce the number of renewal students by approximately 10 percent their junior and senior years. This is based on the fact that approximately 10 to 15 percent of Bright Flight recipients require at least 5 years to graduate. It is likely that these 5 year graduates are not accumulating credit hours at the rate required by this new provision. While some of these students may increase the number of hours completed as a result of this requirement, it is assumed that some proportion (10%) will not.

While current projections indicate participation will remain constant at around 6,000 recipients, implementation of ACT census testing for juniors begins this academic year. Increasing the pool of test takers will increase the number of Bright Flight eligible students beginning in Academic Year 2017/2018, and these projections reflect that increase.

FY 2018	4-yrs	CC	Ind.
Eligible (top 5%)	2,740	108	757
Max. Loan	\$5,000	\$2,000	\$5,000
Total	\$13,700,000	\$216,000	\$3,785,000

Based on these assumptions, the cost for FY 2018 would be \$17,701,000.

ASSUMPTION (continued)

FY 2019	4-yrs	CC	Ind.
Eligible (top 5%)	3,733	147	1,032
Max. Loan	\$5,000	\$2,000	\$5,000
Total	\$18,665,000	\$294,000	\$5,160,000

Based on these assumptions, the cost for FY 2019 would be \$24,119,000.

FY 2020	4-yrs	CC	Ind.
Eligible (top 5%)	4,085	161	1,129
Max. Loan	\$5,000	\$2,000	\$5,000
Total	\$20,425,000	\$322,000	\$5,645,000

Based on these assumptions, the cost for FY 2020 would be \$26,392,000.

FY 2021	4-yrs	CC	Ind.
Eligible (top 5%)	4,323	170	1,195
Max. Loan	\$5,000	\$2,000	\$5,000
Total	\$21,615,000	\$340,000	\$5,975,000

Based on these assumptions, the cost for FY 2021 would be \$27,930,000.

ITSD assumes this proposal would require changes to the existing FAMOUS program as well as require design, development and implementation of a brand new loan forgiveness program. It is expected to require an IT Consultant at \$75 per hour for 5,999 hours at a cost of \$449,955 in FY 2016. Additional updates each year would require \$92,241 in FY 2017 and \$94,547 in FY 2018. An additional \$6,000 per year is expected for a developer tool to create the seamless word to pdf/fillable pdf documents required for applicants.

While initial administrative costs relating to program implementation and operation would be minimal, once the loan component of the program becomes fully operational (that is, recipients have graduated and loans begin to be forgiven or go into repayment), there are two possible outcomes. Should the DHE be able to contract out the loan servicing and collection to a third party organization, there would be ongoing costs for the maintenance of the contract in addition to the cost for one Senior Associate and updates to the current IT system to handle the delivery of funds under the forgivable loan aspect of Bright Flight. The current fiscal impact is based upon this assumption. However, should the DHE need to service the loans directly, at least two additional employees at the Research Associate level will need to be hired and IT will need to create a new system that would track all students who have taken out loans and the data

ASSUMPTION (continued)

necessary for repayment or forgiveness. The IT costs alone would be substantial and the additional staff costs would be ongoing for the life of the program.

Oversight assumes this proposal in §173.250.16 allows DHE to contract for the administration of the loan forgiveness program, not to exceed 2% of the total loan volume amount. Therefore, Oversight will assume that DHE will only need the one Senior Associate FTE for program administration. Additionally, ITSD will only need the computer costs outlined previously. Oversight will assume the FTE and computer costs will be paid by General Revenue.

Oversight assumes this proposal allows DHE to contract for the administration of the loan program. Oversight will show the administration amount as the 2% of the loan volume allowed per the proposal. Oversight assumes General Revenue would be responsible for the payment of the contract since no funding source was specified in the proposal. The 2% would be \$112,900 in FY 2016, \$220,980 in FY 2017 and \$354,020 in FY 2018.

Officials at the **Missouri State University** and the **University of Missouri** each assume this proposal would have a positive impact on their respective organizations. The exact amount of the impact can not be determined at this time.

Officials at the **University of Central Missouri (UCM)** assume this would have additional costs due to additional staff support needed to process the loan requirements. Financial Aid would probably need to add a position to administer the state scholarship/loan programs as information regarding the passing of Algebra and the compass is not something that is tracked currently in our system. In addition, the proposal includes the University responding to request by the CBHE to help with the administrative burden of the program, so could involve more staff hours. The proposal is not clear as to the division of administrative labor of additional reporting requirements.

Additionally, UCM may would incur revenue losses if it received less than full reimbursement from the state for tuition and fees not charged to qualifying students, or if reimbursement was significantly delayed. The proposal is unclear as to how and when the university would receive reimbursement, except the comment it would come in “no fewer than two payments.

Officials at the **Joint Committee on Administrative Rules, Metropolitan Community College, Office of State Treasurer** and the **State Technical College of Missouri** each assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the following colleges: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Lincoln University, Moberly Area Community College, Northwest Missouri State University, Southeast Missouri State University, St. Charles Community College, St. Louis Community College, Three Rivers Community College and the Truman State University did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Savings</u> - Higher Education - changing definition of continuous enrollment	\$0	\$870,000	\$870,000
<u>Transfer Out</u> - Higher Education Academic Scholarship Trust Fund for forgivable loans	(\$5,645,000)	(\$11,049,000)	(\$17,701,000)
<u>Transfer Out</u> - Higher Education Academic Scholarship Trust Fund for contract services	(\$112,900)	(\$220,980)	(\$354,020)
<u>Costs</u> - Department of Higher Education - computer upgrades and maintenance	(\$455,955)	(\$93,441)	(\$95,747)
<u>Costs</u> - DHE			
Personal Service	(\$42,980)	(\$52,092)	(\$54,207)
Fringe Benefits	(\$22,352)	(\$27,090)	(\$28,190)
<u>Total Costs</u> - DHE	<u>(\$65,332)</u>	<u>(\$79,182)</u>	<u>(\$82,397)</u>
FTE Change - DHE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$6,279,187)</u>	<u>(\$10,572,603)</u>	<u>(\$17,363,164)</u>
Estimated Net FTE Change on General Revenue Fund	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018
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**HIGHER EDUCATION ACADEMIC
 SCHOLARSHIP TRUST FUND**

<u>Transfer In</u> - General Revenue- forgivable loans	\$5,645,000	\$11,049,000	\$17,701,000
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<u>Transfer In</u> - General Revenue - for contract services	\$112,900	\$220,980	\$354,020
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<u>Revenue</u> - private donations, repayments and penalties	Could exceed \$100,000	Could exceed \$100,000	Could exceed \$100,000
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<u>Costs</u> - DHE - forgivable loans granted to Bright Flight students	(\$5,645,000)	(\$11,049,000)	(\$17,701,000)
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<u>Costs</u> - DHE - for contract services	<u>(\$112,900)</u>	<u>(\$220,980)</u>	<u>(\$354,020)</u>
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**ESTIMATED NET EFFECT ON
 HIGHER EDUCATION ACADEMIC
 SCHOLARSHIP TRUST FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
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<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding the Higher Education Academic Scholarship Program, commonly known as Bright Flight, to include forgivable loans.

The bill defines "continuous enrollment" as the successful completion of at least 24 semester credit hours by the conclusion of the 12 months following a renewal student's initial enrollment and 30 additional semester credit hours at the conclusion of each subsequent 12-month period, including credit for dual credit or dual enrollment completed before high school graduation as determined by the Department of Higher Education.

An "eligible borrower" is defined, beginning in academic year 2015- 16, as an eligible student who completes high school in the 2013-14 school year or subsequent year and elects to receive a forgivable loan or loans under these provisions.

An applicant who graduates from high school in the 2016-17 school year or after must attain a score of proficient or advanced on the official Algebra I end-of-course assessment or its equivalent on a successor assessment or a higher level department-approved end-of course assessment or a qualifying score as established annually by the Coordinating Board for Higher Education within the department on a specified component of the COMPASS exam published by the American College Testing (ACT) or the ACT test and on the official English I end-of-course assessment or its equivalent or a specified component of the exam or the test in order to be eligible for the program. A student with an individualized education program or a plan prepared under Section 504 of the federal Rehabilitation Act of 1973 may demonstrate proficiency as established by board rule.

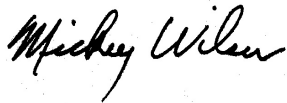
An eligible or renewal student may choose to receive forgivable loans for up to 10 semesters, not to exceed the cost of attendance minus the amount of the academic scholarship. The student must agree to be employed in Missouri within one year of the cessation of full-time postsecondary attendance and fulfill the contractual obligations specified in the bill. An eligible borrower who ceases to be employed in the state or fails to meet the contract requirements must repay the loan with interest. The board must approve loan forgiveness on a year-by-year basis.

The Higher Education Academic Scholarship Trust Fund is created consisting of all appropriations, donations, and other funds to be used by the board to provide loans to eligible students. The Department of Higher Education may retain up to 2% of the loan volume to contract for the administration of the program.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Higher Education
Joint Committee on Administrative Rules
Metropolitan Community College
Missouri State University
Office of State Treasurer
State Technical College of Missouri
University of Central Missouri
University of Missouri

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 8, 2015

Ross Strobe
Assistant Director
April 8, 2015